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# Legislative Audit Division

State of Montana

Report to the Legislature

June 2001

## Financial Audit

For the Fiscal Year Ended June 30, 2000

# Montana Water Pollution Control and Drinking Water State Revolving Fund Programs

Department of Environmental Quality
Department of Natural Resources and Conservation

We performed a financial audit of the Montana Water Pollution Control and Drinking Water State Revolving Fund Programs for the fiscal year ended June 30, 2000. This report contains the audited financial statements and accompanying notes for fiscal year 1999-00. We issued an unqualified opinion on the financial statements. The opinion means the reader may rely on the financial statement information presented.

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# FINANCIAL AUDITS

Financial audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with laws and regulations that could have a direct and material effect on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Legislative Audit Division
Room 160, State Capitol
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# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

June 2001

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the fiscal year 1999-00 financial audit of the Montana Water Pollution Control State Revolving Fund (WPCSRF) and Drinking Water State Revolving Fund (DWSRF) Programs. The Department of Natural Resources and Conservation requested the audit of these programs because annual audits are required by the federal Environmental Protection Agency.

The objectives of a financial audit include determining if the programs' financial statements present fairly its financial position at June 30, 2000, and the results of its operations for the fiscal year then ended. We tested compliance with state and federal laws that have a direct and material impact on the financial statements.

The WPCSRF program provides loans at a reduced interest rate to finance construction of publicly-owned water pollution control facilities, non-point source pollution control projects, and estuary management plans. Water Pollution control loans must be repaid within 20 years. As of June 30, 2000, the Water Pollution Control Program had $44,579,454 of outstanding loans.

The DWSRF provides low interest loans to communities for the construction of drinking water treatment facilities. Drinking water loans may be financed up to 30 years. At June 30, 2000, the Drinking Water Program had $18,799,372 of outstanding loans.

On page A-1, you will find the Independent Auditor's Report followed by the financial statements and accompanying notes. We issued an unqualified opinion which means the reader can rely on the presented information. The programs' financial statements begin on page A-3. Our opinion on the programs' supplementary financial information is on page B-1. The supplementary information begins on page B-3. Beginning on page C-1 is our report on compliance and internal control which is required by *Government Auditing Standards* issued by the Controller General of the United States. The departments have reviewed this report and agree with the contents.

We thank the directors of the Department of Environmental Quality and the Department of Natural Resources and Conservation and their staff for cooperation and assistance during the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

Room 160, State Capitol, PO Box 201705 Helena MT 59620-1705
Phone (406)444-3122 FAX (406)444-9784 E-Mail lad@state.mt.us

## Appointed and Administrative Officials

| | |
|---|---|
| **Department of Environmental Quality** | Jan Sensibaugh, Director |
| | Ann Danzer, Administrator, Centralized Services Division |
| | Tom Livers, Chief, Technical and Financial Assistance Bureau |
| **Department of Natural Resources and Conservation** | Bud Clinch, Director |
| | Anna Miller, Financial Advisor |
| | Ann Bauchman, Administrator, Centralized Services Division |

For additional information concerning the Montana Water Pollution Control and Drinking Water State Revolving Fund Programs, contact Anna Miller, Financial Advisor, at:

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e-mail: annam@state.mt.us

The audit staff involved in this audit were Scott Hoversland and Jennifer Solem.

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# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit


## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature

We have audited the accompanying Combined Balance Sheet of the Montana Water Pollution Control and Drinking Water State Revolving Fund Programs' Special Revenue and Debt Service Funds, as of June 30, 2000 and the related Combined Statement of Revenues, Expenditures, and Changes in Fund Balances, Special Revenue and Debt Service Funds, for the year then ended. These financial statements are the responsibility of the management at the Montana Department of Environmental Quality and the Montana Department of Natural Resources and Conservation. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

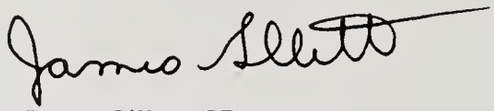
As discussed in the notes to the financial statements, the financial statements of the Montana Water Pollution Control and Drinking Water State Revolving Fund Programs' Special Revenue and Debt Service Funds are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State of Montana that is attributable to the transactions of the specified funds of the programs.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Water Pollution Control and Drinking Water State Revolving Fund Programs' Special Revenue and Debt Service Funds as of June 30, 2000, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2001, on our consideration of the internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended for the information and use of the Legislative Audit Committee, department management, the Montana State Legislature, and the U.S. Environmental Protection Agency and should not be used by anyone other than these specified parties. This report is a matter of public record and its distribution is not limited.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

February 23, 2001

## MONTANA WATER POLLUTION CONTROL AND DRINKING WATER STATE REVOLVING FUND PROGRAMS
## COMBINED BALANCE SHEET
## SPECIAL REVENUE AND DEBT SERVICE FUNDS
## JUNE 30, 2000

| | WATER POLLUTION CONTROL | | DRINKING WATER | | (FOR MEMORANDUM ONLY) |
|---|---|---|---|---|---|
| | SPECIAL REVENUE | DEBT SERVICE | SPECIAL REVENUE | DEBT SERVICE | TOTAL |
| **ASSETS** | | | | | |
| Cash/Cash Equivalents | $1,650,748 | $560,247 | $1,863,178 | $180,523 | $4,254,696 |
| Due From Other Accounting Entities | 1,914 | | 6,764 | | 8,678 |
| Expense Advances to Employees | 500 | | 1,300 | | 1,800 |
| Interest Receivable | 60,585 | 252,875 | 19,221 | 76,717 | 409,398 |
| Due from Federal Government | | | 222,601 | | 222,601 |
| Investments | 18,785,444 | 2,091,332 | 3,314,455 | 452,297 | 24,643,528 |
| Loans Receivable | 44,579,454 | | 18,799,372 | 0 | 63,378,826 |
| Total Assets | $65,078,645 | $2,904,454 | $24,226,891 | $709,537 | $92,919,527 |
| **LIABILITIES AND FUND BALANCES** | | | | | |
| ***Liabilities:*** | | | | | |
| Accounts Payable | 6,223 | | $31,435 | | 37,658 |
| Due to Other Accounting Entities | 20,693 | | 49,576 | | 70,269 |
| Vouchers Payable | 4,410 | | 31,903 | | 36,313 |
| Deferred Revnue | 172,693 | | | | 172,693 |
| Interentity Loans Payable | 3,000 | | 125,000 | | 128,000 |
| Total Liabilities | $207,019 | $0 | $237,914 | $0 | $444,933 |
| ***Fund Balances*** | | | | | |
| Reserved for Loans Receivable | $44,579,454 | $0 | $18,799,372 | $0 | $63,378,826 |
| Unreserved, Undesignated | 20,292,172 | 2,904,454 | 5,189,605 | 709,537 | 29,095,768 |
| Total Fund Balances | $64,871,626 | $2,904,454 | $23,988,977 | $709,537 | $92,474,594 |
| Total Liabilities and Fund Balances | $65,078,645 | $2,904,454 | $24,226,891 | $709,537 | $92,919,527 |

**The accompanying notes to the financial statements are an integral part of this statement.**

MONTANA WATER POLLUTION CONTROL AND DRINKING WATER
STATE REVOLVING FUND PROGRAMS
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
SPECIAL REVENUE AND DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

| | WATER POLLUTION CONTROL | | DRINKING WATER | | (FOR MEMORANDUM ONLY) |
|---|---|---|---|---|---|
| | SPECIAL REVENUE | DEBT SERVICE | SPECIAL REVENUE | DEBT SERVICE | TOTAL |
| **REVENUES:** | | | | | |
| Federal Capitalization Grant Revenue | $6,528,885 | | $8,645,707 | | $15,174,592 |
| Accomodations Tax | 13 | | 20 | | 33 |
| Interest Income on Investments | 812,046 | 24,040 | (20,463) | 127,802 | 943,425 |
| Interest Earnings | 331,591 | 1,448,083 | 113,081 | 345,891 | 2,238,646 |
| Administration and Origination Fees | 230,958 | | 384,583 | | 615,541 |
| **TOTAL REVENUES** | $7,903,493 | $1,472,123 | $9,122,928 | $473,693 | $18,972,237 |
| **EXPENDITURES:** | | | | | |
| Program Administration/Set-Asides | $395,162 | | $798,466 | | $1,193,628 |
| State In-Kind Services-RIT | 3,154 | | 6,485 | | 9,639 |
| **TOTAL EXPENDITURES** | $398,316 | $0 | $804,951 | $0 | $1,203,267 |
| Excess Revenues Over/(Under) | $7,505,177 | $1,472,123 | $8,317,977 | $473,693 | $17,768,970 |
| **OTHER FINANCING SOURCES:** | | | | | |
| General Obligation Bond Proceeds | $3,325,000 | | $2,990,000 | | $6,315,000 |
| *Operating Transfers In:* | | | | | |
| Recycled Transfers from Water Pollution Control SRF | | | 4,729,279 | | 4,729,279 |
| Debt Service Sweep | 60,924 | | 40,795 | | 101,719 |
| Origination/Administrative Fee Transfer | | 146,640 | | 244,180 | 390,820 |
| RIT Transfers In | 3,154 | | 6,485 | | 9,639 |
| Loan Loss Reserve Sweep | | | | | 0 |
| Total Other Financing Sources | $3,389,078 | $146,640 | $7,766,559 | $244,180 | $11,546,457 |
| **OTHER FINANCING USES:** | | | | | |
| Bond Principal | | $385,000 | | | $385,000 |
| Bond Interest | | 547,080 | | 171,680 | 718,760 |
| Bond Cost of Issuance | 89,916 | | 73,397 | | 163,313 |
| Arbitrage Rebate Tax | | 1,891 | | | 1,891 |
| *Operating Transfers Out:* | | | | | |
| Recycled Transfers to Drinking Water | 4,750,328 | | | | 4,750,328 |
| Debt Service Sweep | | 60,924 | | 40,795 | 101,719 |
| Origination/Administrative Fee Transfer | 146,640 | | 244,180 | | 390,820 |
| Loan Loss Reserve Sweep | | | | | 0 |
| Total Other Financing Uses | $4,986,884 | $994,895 | $317,577 | $212,475 | $6,511,831 |
| Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing uses | $5,907,371 | $623,868 | $15,766,959 | $505,398 | $22,803,596 |
| Fund Balance - July 1, 1999 | $58,964,255 | $2,280,586 | $8,221,575 | $204,139 | $69,670,555 |
| Prior Period Adjustment | | | 443 | | 443 |
| Adjusted Fund Balance - July 1, 1999 | 58,964,255 | 2,280,586 | 8,222,018 | 204,139 | 69,670,998 |
| Fund Balance - June 30, 2000 | $64,871,626 | $2,904,454 | $23,988,977 | $709,537 | $92,474,594 |

**The accompanying notes to the financial statements are an integral part of this statement.**

# MONTANA STATE WATER POLLUTION CONTROL AND DRINKING WATER STATE REVOLVING FUND PROGRAMS
# SPECIAL REVENUE AND DEBT SERVICE FUND
# NOTES TO FINANCIAL STATEMENTS
# FOR THE FISCAL YEAR ENDED JUNE 30, 2000

## 1. Organization of the Programs

The State of Montana's Water Pollution Control State Revolving Fund (WPCSRF) Program was established pursuant to Title VI of the Federal Water Quality Act of 1987. This federal act established the WPCSRF program to replace the construction grants program to provide a flexible financing source to loan money at reduced interest rates to finance the construction of publicly owned water pollution control facilities, non-point source pollution control projects, and estuary management plans. Instead of making grants to communities that pay for a portion of building wastewater treatment facilities, the WPCSRF provides for low interest rate loans to finance the entire cost of qualified projects.

The State of Montana's Drinking Water State Revolving Fund (DWSRF) Program was established pursuant to Title XIV of the Safe Drinking Water Act. This federal act established the DWSRF program for states to make loans to community water systems and nonprofit non-community water systems. Instead of making grants to communities that pay for a portion of building drinking water treatment facilities, the DWSRF provides for low interest rate loans to finance the entire cost of qualified projects or to refinance debt obligations on projects, which began after July 1, 1993. The State of Montana first incurred expenditures in the DWSRF Program in SFY1997.

WPCSRF loans must be repaid within 20 years, while DWSRF loan agreements allow up to 30 years for repayment. All repayments of interest and principal must remain in the Fund. Both programs are capitalized through U.S. Environmental Protection Agency (EPA) grants. States are required to provide an additional 20 percent of the federal capitalization grant as matching funds in order to receive a grant.

The programs are administered jointly by the Department of Environmental Quality (DEQ) Technical and Financial Assistance Bureau, and the Department of Natural Resources and Conservation (DNRC) Conservation and Resource Development Division. The Fund does not have any full time employees. Both funds are charged for time spent on SRF activities by department employees. The charges include salaries and benefits of the employees and operating expenses, as well as indirect costs.

## 2. Summary of Significant Accounting Policies

### A. State Revolving Fund(SRF) Program Fund Structure

Both programs use Special Revenue and Debt Service Funds, as appropriate, to report their financial position and the results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions and activities. Montana maintains a State Special Revenue and a Federal Special Revenue Fund. The SRF programs are blended from a part of each Special Revenue

Fund. A fund is a separate accounting entity with a self-balancing set of accounts. Special Revenue and Debt Service Funds are considered governmental funds.

A Special Revenue Fund accounts for the proceeds of specific revenue sources restricted to expenditures for specified purposes (other than expendable trusts or major capital projects). A Debt Service Fund accounts for resources accumulated for payment of principal and interest on general long-term obligation debt.

**B. Basis of Accounting**

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for on a current financial resources measurement focus. Only assets and current liabilities are generally included on their balance sheets. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

These funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when received in cash unless susceptible to accrual. Revenues are susceptible to accrual if they are measurable and available to finance expenditures of the fiscal period or are not received at the normal time of receipt. Revenues are deferred if material and received before the normal time of receipt or if received for a particular activity and the expense for that activity has not been incurred prior to fiscal year-end. Expenditures are recognized when the related fund liability is incurred, with the following exceptions:

1) principal and interest on long-term debt is recognized when due;
2) prepayments are accounted for as expenditures in the period of acquisition;
3) inventory items are considered expenditures when purchased.

**3. Cash/Cash Equivalents**

Cash and cash equivalents consist of funds deposited with the Montana State Treasurer, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less.

| Risk Category 1 | Carrying Amount | Fair Value | Fund |
|---|---|---|---|
| Money Market Direct Investment | $4,088,176 | $4,088,176 | Various |

**4. Due from Federal Government**

This classification consists of amounts expended and awaiting receipt of the federal capitalization grant reimbursement.

**5. Investments**

The Board of Examiners of the State of Montana authorizes the sale of general obligation bonds to provide the state match for the SRF programs through the issuance of an Indenture of Trust. The Board of Examiners is comprised of the Governor, Attorney General, and the Secretary of State for the State of Montana. The Indenture of Trust specifies the eligible investments meeting

defined rating and risk criteria in which the state may invest. The state invests funds through its trustee bank, US Bank, N.A.

| Security Type | Category 1 | Carrying Amount | Market Value |
|---|---|---|---|
| Government Securities | $24,671,265 | $24,671,265 | $24,643,529 |

**6. Loans Receivable**

Montana operates both SRF programs as direct loan programs. Loans made to communities through the Water Pollution Control Program are 83.33 percent funded by the federal capitalization grant, and 16.67 percent by the state match amount. Loans made by the Drinking Water Program are funded 80 percent by the federal capitalization grant, and 20 percent by the state match amount. Loan funds are disbursed to the local agencies by the trustee bank as local agencies expend funds for the purposes of the loan and request reimbursement from the program. Interest is calculated from the date that funds are disbursed. Typically after the final disbursement has been made, the payment schedule is certified in the loan agreement and adjusted for the actual amounts disbursed. No provision for uncollectible accounts have been made as all loans are current, and management believes that all loans will be repaid according to the terms of the loan agreement.

The outstanding principal balance of all loans guaranteed by the WPCSRF Program as of June 30, 2000, is $44,579,454. The outstanding principal balance of all loans guaranteed by the DWSRF Program as of June 30, 2000 is $18,799,372.

Loans mature at various intervals through July 1, 2021. The scheduled principal payments on loans maturing in the years after 2000 are as follows:

| Year ending June 30: | WPCSRF Amount | DWSRF Amount |
|---|---|---|
| 2001 | $ 2,583,613 | $ 719,700 |
| 2002 | $ 3,890,862 | $ 853,539 |
| 2003 | $ 3,492,412 | $ 929,487 |
| 2004 | $ 3,207,462 | $ 970,979 |
| 2005 and thereafter | $31,405,105 | $ 15,325,667 |
| **Total** | **$44,579,454** | **$18,799,372** |

As of June 30, 2000 the WPCSRF and DWSRF had authorized loans to public entities of the State of Montana that in the aggregate exceeded $88 and $39 million, respectively. The outstanding balances of the largest loans in each portfolio are as follows.

**Water Pollution Control State Revolving Fund:**

| Local Agency | Authorized Loan Amount | Outstanding Balance |
|---|---|---|
| City of Helena | $ 9,320,000 | $ 4,000,000 |
| Big Sky County Water & Sewer | $ 5,513,000 | $ 4,663,000 |
| City of Butte-Silver Bow | $ 5,307,390 | $ 2,894,390 |
| City of Kalispell | $ 3,913,000 | $ 2,783,000 |
| Flathead County Evergreen | $ 3,600,000 | $ 2,601,000 |
| City of Missoula Reserve St. SID 520 | $ 2,647,000 | $ 2,546,000 |
| City of Missoula W/B Clarifier SID | $ 2,465,000 | $ 1,169,000 |
| City of Havre | $ 2,224,000 | $ 2,045,916 |
| City of Missoula Reserve St. | $ 2,221,000 | $ 1,575,000 |
| City of Dillon | $ 2,065,000 | $ 1,708,914 |
| **Total** | **$39,275,390** | **$25,986,220** |

**Drinking Water State Revolving Fund:**

| Local Agency | Authorized Loan Amount | Outstanding Balance |
|---|---|---|
| City of Havre II | $ 8,401,000 | $ 500,837 |
| City of Whitefish II | $ 5,839,000 | $ 4,182,065 |
| City of Laurel | $ 5,250,000 | $ 4,112,172 |
| City of East Helena | $ 3,234,000 | $ 3,044,026 |
| City of Glendive | $ 1,829,000 | $ 1,476,947 |
| Seeley Lake Water District | $ 1,340,000 | $ 1,315,000 |
| Town of Boulder | $ 1,294,000 | $ 219,217 |
| City of Columbia Falls | $ 907,000 | $ 907,000 |
| City of Havre I | $ 600,000 | $ 559,000 |
| City of Plentywood | $ 577,000 | $ 557,000 |
| **Total** | **$29,271,000** | **$16,873,264** |

**7. Interest Receivable**

This account represents interest owed by borrowers as of June 30, 2000, for their July 2000 payment. It represents the six months of interest accrued from the loan payment made in January 2000. It does not include interest payments received in June, that were due July 2000. Interest payments received in June amounted to $538,318 for the WPCSRF and $190,895 for the DWSRF.

## 8. Bonds Payable

**General Obligation Debt—WPCSRF**
**Principal Payments**

| Series | Amount Issued | Interest Range(%) | FY01 | In Year of Maturity | Balance June 30, 2000 |
|---|---|---|---|---|---|
| 1991B | $ 2,595,000 | 5.00 - 6.80 | $ 95,000 | $ 215,000 (2014) | $ 2,060,000 |
| 1994B | $ 2,200,000 | 4.20 - 6.10 | $ 80,000 | $ 180,000 (2016) | $ 1,925,000 |
| 1996C | $ 2,765,000 | 3.75 - 5.75 | $105,000 | $ 120,000 (2017) | $ 2,505,000 |
| 1998A | $ 3,510,000 | 3.75 - 5.15 | $120,000 | $ 260,000 (2019) | $ 3,395,000 |
| 2000B | $ 3,325,000 | 4.25 - 5.60 | $ 0 | $ 240,000 (2021) | $ 3,325,000 |
| **Total** | **$14,395,000** | | **$400,000** | **$1,015,000** | **$13,210,000** |

Debt Service requirements (principal and interest) for WPCSRF are as follows:

| 2001 | 2002 | 2003 | 2004 | 2005 | 2006+ | Totals |
|---|---|---|---|---|---|---|
| $1,057,412 | $1,198,420 | $1,192,808 | $1,195,308 | $1,200,664 | $14,745,638 | **$20,590,250** |

**General Obligation Debt—DWSRF**

| Series | Amount Issued | Int. Range(%) | FY01 | In Year of Maturity | Balance June 30, 2000 |
|---|---|---|---|---|---|
| 1998F | $ 3,065,000 | 3.60 - 4.85 | $110,000 | $230,000 (2018) | $ 3,065,000 |
| 2000A | $ 2,990,000 | 4.25 - 5.60 | $ 0 | $240,000 (2021) | $ 2,990,000 |
| **Total** | **$ 6,055,000** | | **$110,000** | **$470,000** | **$ 6,055,000** |

Debt Service requirements (principal and interest) for DWSRF are as follows:

| 2001 | 2002 | 2003 | 2004 | 2005 | 2006+ | Totals |
|---|---|---|---|---|---|---|
| $356,979 | $484,574 | $486,158 | $487,028 | $482,393 | $7,229,544 | $9,526,676 |

Interest earnings from both programs have been and will be used to liquidate this long-term debt. The year of maturity refers to state fiscal year. The General Obligation Bonds Payable are blended into the General Long Term Debt Account Group on the State of Montana Comprehensive Annual Financial Report (CAFR) and are not included on the programs' financial statements.

## 9. Fund Balance

A portion of the fund balance in the WPCSRF and DWSRF has been reserved for Loans Receivable, indicating that a portion of the fund balance is not available for expenditure.

The WPCSRF and DWSRF programs are capitalized by grants from EPA and matching funds from the State of Montana. All grant funds drawn are recorded as revenue. As of June 30, 2000,

EPA has awarded capitalization grants of $69,650,000 to the State of Montana for the WPCSRF program, of which $52,783,430 has been drawn for loans and administrative expenses. As of June 30, 2000, EPA has awarded capitalization grants of $29,411,300 to the State of Montana for the DWSRF program, of which $14,396,537 has been drawn for loans and administrative expenses. Montana has issued bonds totaling $14,395,000 for use as state matching funds for the WPCSRF program and $6,055,000 for use as state matching funds in the DWSRF program.

**10. Federal Capitalization Grant Revenues**

Actual draws of federal funds differ from the amount of Federal Capitalization Grant Revenue reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance. This occurs because state accounting policy requires federal special revenue funds reflect a zero fund balance at fiscal year-end (with the exception of "A" accruals). Consequently, if a positive fund balance exists, a deferred revenue is recorded. If a negative fund balance is reflected at fiscal year-end, a revenue accrual to record revenue is recorded to zero the fund balance.

The following is a reconciliation of federal revenues reported on the financial statements to federal cash actually drawn during the state fiscal year:

| **WPC-SRF** | |
|---|---|
| Federal Capital Grant Revenue – Financial Statement: | $6,528,885 |
| Revenue drawn in FY00 but deferred to FY01 | 172,693 |
| Revenue recorded as PY Rev that should be deferred to FY01 | 149,197 |
| Correction of miscoded draw | <8,072> |
| **Total Federal Draws** | **$6,842,703** |

| **DW-SRF** | |
|---|---|
| Federal Capital Grant Revenue – Financial Statement: | $8,645,707 |
| Revenue recognized at FYE 99, but drawn in FY00 | 95,786 |
| Revenue recognized at FYE 00, but not drawn in FY01 | <222,601> |
| Revenue drawn by June 30, 2000, but not recorded until FY01 | 20,374 |
| Correction of miscoded draw | 8,072 |
| **Total Federal Draws** | **$8,547,338** |

**11. Interest Income on Investments**

This revenue represents interest earnings on investments in the various accounts within the Fund. All assets of the Fund are invested to the degree possible by the trustee in investment vehicles, ranging from cash equivalents to long-term investments.

**12. Interest Earnings**

This revenue represents interest earnings from loan repayments made by borrowers.

**13. Program Administration**

This expenditure represents costs incurred by DEQ and DNRC to administer the SRF programs. This amount is limited to 4% of each grant award from the EPA. Program Administration appears under the Resource Development/Recreation function in the State of Montana's CAFR.

**14. Other Financing Sources and Uses**

Loan interest amounts received that exceed the debt service requirements are shown as a Financing Source and Use on the financial statements. The balance remaining in the Debt Service Account is transferred to the Investment Account. Both accounts are within the SRF fund. This occurs after payments are rendered to the bondholders on July 15 of each year. In the Arbitrage Certificate, this activity is termed a Debt Service Sweep.

Administration and Origination Fees are shown both as a Financing Source and Use of funds because the fees are initially recorded inside the Loan Account when disbursed. These revenues are then transferred to the Special Administration and Loan Loss Reserve Accounts, which are outside the Fund.

RIT Transfers In represent financial support provided to the programs utilizing state Resource Indemnity Trust (RIT) monies and are considered in-kind match dollars for both programs.

The Loan Loss Reserve Sweep represents monies in excess of the reserve requirement that are transferred from the Loan Loss Reserve Account to the Special Administration Account per the bond indenture. Both accounts are considered outside the fund.

The Arbitrage Rebate Transfer reflects monies transferred into the Rebate Account (outside the fund) based on the annual arbitrage rebate liability calculation.

Recycled Fund transfers are transfers between the principal accounts in the WPCSRF and the DWSRF fund as allowed in Federal and State law as exercised by the Governor of the State.

**15. Subsequent Events**

The FFY 1999 capitalization grant for the WPCSRF program was awarded on August 31, 2000, in the amount of $6,577,900.

The FFY 2000 capitalization grant for the DWSRF program was awarded on October 2, 2000, in the amount of $7,757,000.

# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

## INDEPENDENT AUDITOR'S REPORT

To the Legislative Audit Committee
of the Montana State Legislature:

Our audit was made for the purpose of forming an opinion on the Montana Water Pollution Control and Drinking Water State Revolving Fund Programs' financial statements taken as a whole. The Schedule of Revolving and Non-Revolving SRF Program Assets, Special Revenue and Debt Service Funds, for the Montana Water Pollution Control Program and the related Schedule of Revolving and Non-Revolving SRF Program Revenues, Expenditures, and Changes in Fund Balance, Special Revenue and Debt Service Funds are presented for purposes of additional analysis and are not a required part of the financial statements of this program. Such information has been subjected to the auditing procedures applied in the audit of the programs' financial statements and, in our opinion, based upon our audit, is fairly presented in all material respects in relation to the programs' financial statements taken as a whole.

Respectfully submitted,

James H. Gillett, CPA
Deputy Legislative Auditor

February 23, 2001

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**MONTANA WATER POLLUTION CONTROL AND DRINKING WATER**
**SCHEDULE OF REVOLVING AND NON-REVOLVING SRF PROGRAM ASSETS**
**SPECIAL REVENUE AND DEBT SERVICE FUNDS**
**REGULATORY BASIS**
**JUNE 30, 2000**

| | WPC-SRF STATE SPECIAL REVENUE | | WPC-SRF DEBT SERVICE FUND | | DW-SRF STATE SPECIAL REVENUE | | DW-SRF DEBT SERVICE FUND | | (FOR MEMORANDUM ONLY) |
|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | REVOLVING FUND | NON REVOLVING FUND | REVOLVING FUND | NON REVOLVING FUND | REVOLVING FUND | NON REVOLVING FUND | REVOLVING FUND | NON REVOLVING FUND | TOTAL |
| Cash/Cash Equivalents | $1,513,806 | $136,942 | $331,229 | $229,018 | $1,540,180 | $322,998 | $134,497 | $46,026 | $4,254,696 |
| Due From Other Accounting Entities | 1,914 | | | | 6,764 | | | | 8,678 |
| Advances to Employees | 500 | | | | 1,300 | | | | 1,800 |
| Interest Receivable | | 60,585 | 179,668 | 73,207 | | 19,221 | 57,664 | 19,053 | 409,398 |
| Due from Federal Government | | | | | 222,601 | | | | 222,601 |
| Investments | 16,343,368 | 2,442,076 | 311,768 | 1,779,564 | 1,999,089 | 1,315,366 | 91,804 | 360,493 | 24,643,528 |
| Loans Receivable | 44,579,454 | | | | 18,799,372 | | 0 | 0 | 63,378,826 |
| Total Assets | $62,439,042 | $2,639,603 | $822,665 | $2,081,789 | $22,569,306 | $1,657,585 | $283,965 | $425,572 | $92,919,527 |
| **LIABILITIES AND FUND BALANCES** | | | | | | | | | |
| ***Liabilities:*** | | | | | | | | | |
| Accounts Payable | 6,223 | | | | 31,435 | | | | 37,658 |
| Due to Other Accounting Entities | 20,693 | | | | 49,576 | | | | 70,269 |
| Vouchers Payable | 4,410 | | | | 31,903 | | | | 36,313 |
| Deferred Revenue | 172,693 | | | | | | | | 172,693 |
| Interentity Loans Payable | 3,000 | | | | 125,000 | | | | 128,000 |
| Total Liabilities | $207,019 | $0 | $0 | $0 | $237,914 | $0 | $0 | $0 | $444,933 |
| ***Fund Balances*** | | | | | | | | | |
| Reserved for Loans Receivable | 44,579,454 | 0 | 0 | 0 | 18,799,372 | 0 | 0 | 0 | 63,378,826 |
| Unreserved, Undesignated | 17,652,569 | $2,639,603 | 822,665 | 2,081,789 | 3,532,020 | 1,657,585 | 283,965 | 425,572 | 29,095,768 |
| Total Fund Balances | $62,232,023 | $2,639,603 | $822,665 | $2,081,789 | $22,331,392 | $1,657,585 | $283,965 | $425,572 | $92,474,594 |
| Total Liabilities and Fund Balances | $62,439,042 | $2,639,603 | $822,665 | $2,081,789 | $22,569,306 | $1,657,585 | $283,965 | $425,572 | $92,919,527 |

**This schedule is prepared on a regulatory basis of presentation, rather than a GAAP (1) basis, as requested by the Environmental Protection Agency (EPA) for the Water Pollution Control and Drinking Water State Revolving Fund (SRF) Programs. This presentation separates certain regulated Revolving Fund (within the Fund) and Non-Revolving Fund (outside the Fund) activity by fund type. All proceeds from the EPA Capitalization Grant, corresponding state matching funds, and loan principal and interest repayments must be deposited into the Revolving Fund under Title VI of the Clean Water Act and Title XIV of the Safe Drinking Water Act. Other proceeds, including Administration and Origination Fees and Loan Loss Reserves are deposited into the Non-Revolving Fund and may be used for other water quality purposes under the federal acts mentioned above.**

**MONTANA WATER POLLUTION CONTROL AND DRINKING WATER**
**SCHEDULE OF REVOLVING AND NON-REVOLVING SRF PROGRAM**
**REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**
**SPECIAL REVENUE AND DEBT SERVICE FUNDS**
**REGULATORY BASIS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

| | WPC-SRF STATE SPECIAL REVENUE | | WPC-SRF DEBT SERVICE FUND | | DW-SRF STATE SPECIAL REVENUE | | DW-SRF DEBT SERVICE FUND | | (FOR MEMORANDUM ONLY) |
|---|---|---|---|---|---|---|---|---|---|
| | REVOLVING FUND | NON REVOLVING FUND | REVOLVING FUND | NON REVOLVING FUND | REVOLVING FUND | NON REVOLVING FUND | REVOLVING FUND | NON REVOLVING FUND | TOTAL |
| REVENUES: | | | | | | | | | |
| Federal Capitalization Grant Revenue | $6,528,885 | | | | $8,645,707 | | | | $15,174,592 |
| Accomodations Tax | 13 | | | | 20 | | | | 33 |
| Interest Income on Investments | 708,900 | 103,146 | 23,077 | 963 | (23,419) | 2,956 | 121,037 | 6,765 | 943,425 |
| Interest Earnings | | 331,591 | 1,067,667 | 380,416 | 21,049 | 92,032 | 273,122 | 72,769 | 2,238,646 |
| Administration and Origination Fees | 230,958 | | | | 384,583 | | | | 615,541 |
| Total Revenues | $7,468,756 | $434,737 | $1,090,744 | $381,379 | $9,027,940 | $94,988 | $394,159 | $79,534 | $18,972,237 |
| EXPENDITURES: | | | | | | | | | |
| Program Administration/Set-Asides | $395,162 | | | | $798,466 | | | | $1,193,628 |
| State In-Kind Services-RIT | 3,154 | | | | 6,485 | | | | 9,639 |
| Total Expenditures | $398,316 | $0 | $0 | $0 | $804,951 | $0 | $0 | $0 | $1,203,267 |
| Excess Revenues Over/(Under) Expenditures | $7,070,440 | $434,737 | $1,090,744 | $381,379 | $8,222,989 | $94,988 | $394,159 | $79,534 | $17,768,970 |
| OTHER FINANCING SOURCES: | | | | | | | | | |
| General Obligation Bond Proceeds | $3,295,640 | $29,360 | | | $2,867,766 | $122,234 | | | $6,315,000 |
| *Operating Transfers In:* | | | | | | | | | |
| Recycled Fund Transfers | | | | | 3,421,221 | 4,729,279 | | | 8,150,500 |
| RIT Transfers In | 3,154 | | | | 6,485 | | | | 9,639 |
| Administration and Origination Fees | | 84,318 | | 146,640 | 50,935 | 140,403 | | 244,180 | 666,476 |
| Cost of Issuance Transfer | | 66,500 | | | | 50,082 | | | 116,582 |
| Debt Service Sweep | 60,924 | | | | 40,795 | | | | 101,719 |
| Loan Loss Reserve Sweep | | | | | | | | | 0 |
| Total Other Financing Sources | $3,359,718 | $180,178 | $0 | $146,640 | $6,387,202 | $5,041,998 | $0 | $244,180 | $15,359,916 |
| OTHER FINANCING USES: | | | | | | | | | |
| Bond Principal | | | $385,000 | | | | | | $385,000 |
| Bond Interest | | | 547,080 | | | | 171,680 | | 718,760 |
| Bond Cost of Issuance | | 89,916 | | 1,891 | | 73,397 | | | 165,204 |
| *Operating Transfers Out:* | | | | | | | | | |
| Recycled Transfers to Drinking Water | 4,750,328 | | | | | | | | 4,750,328 |
| Recycled Transfers | | | | | | 3,472,156 | | | 3,472,156 |
| Debt Service Sweep | | | 60,924 | | | | 40,795 | | 101,719 |
| Administration and Origination Fees | 230,958 | | | | 384,583 | | | | 615,541 |
| Cost of Issuance Transfer | 66,500 | | | | 50,082 | | | | 116,582 |
| Loan Loss Reserve Sweep | | | | | | | | | 0 |
| Total Other Financing Uses | $5,047,786 | $89,916 | $993,004 | $1,891 | $434,665 | $3,545,553 | $212,475 | $0 | $10,325,290 |
| Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing uses | $5,382,372 | $524,999 | $97,740 | $526,128 | $14,175,526 | $1,591,433 | $181,684 | $323,714 | $22,803,596 |
| Fund Balance - July 1, 1999 | $56,849,649 | $2,114,606 | $724,925 | $1,555,661 | $8,155,421 | $66,154 | $102,281 | $101,858 | $69,670,555 |
| Prior Period Adjustment | | | | | $443 | | | | 443 |
| Adjusted Fund Balance - July 1, 1999 | $56,849,649 | $2,114,606 | $724,925 | $1,555,661 | $8,155,864 | $66,154 | $102,281 | $101,858 | $69,670,998 |
| Fund Balance - June 30, 2000 | $62,232,021 | $2,639,605 | $822,665 | $2,081,789 | $22,331,390 | $1,657,587 | $283,965 | $425,572 | $92,474,594 |

**This schedule is prepared on a regulatory basis of presentation, rather than a GAAP (1) basis, as requested by the Environmental Protection Agency (EPA) for the Water Pollution Control and Drinking Water State Revolving Fund (SRF) Programs. This presentation separates certain regulated Revolving Fund (within the Fund) and Non-Revolving Fund (outside the Fund) activity by fund type. All proceeds from the EPA Capitalization Grant, corresponding state matching funds, and loan principal and interest repayments must be deposited into the Revolving Fund under Title VI of the Clean Water Act and Title XIV of the Safe Drinking Water Act. Other proceeds, including Administration and Origination Fees and Loan Loss Reserves are deposited into the Non-Revolving Fund and may be used for other water quality purposes under the federal acts mentioned above.**

**(1) Generally Accepted Accounting Principles (GAAP).**

TRANSFERS BETWEEN REVOLVING AND NON-REVOLVING SRF FUNDS

| PURPOSE OF TRANSFER | REVOLVING TRANSFER IN | REVOLVING TRANSFER OUT | NON REVOLVING TRANSFER IN | NON REVOLVING TRANSFER OUT |
|---|---|---|---|---|
| Loan Administration and Origination Fees | $50,935 | $615,541 | $615,541 | $29,886 |
| Recycled Fund Transfers | $3,421,221 | $4,750,328 | $4,729,279 | $3,421,221 |
| Cost of Issuance Transfer | | $116,582 | $116,582 | |

# LEGISLATIVE AUDIT DIVISION

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the financial statements of the Montana Water Pollution Control and Drinking Water State Revolving Fund Programs as of and for the fiscal year ended June 30, 2000, and have issued our report thereon dated February 23, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Montana Water Pollution Control and Drinking Water State Revolving Fund Programs' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

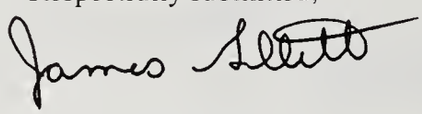
**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Departments' (Department of Environmental Quality and Department of Natural Resources and Conservation) internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal

control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that a misstatement in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

This report is intended for the information of the Legislative Audit Committee, department management, the Montana State Legislature, and the U.S. Environmental Protection Agency. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,



James H. Gillett, CPA
Deputy Legislative Auditor

February 23, 2001